R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

A Two-Part Report: A and B

NO. 19A

May 15, 1992

GLOBALIZATION, ECONOMIC REALITIES FORCE STATES TO REASSESS THEIR OVERSEAS PROGRAMS

SUMMARY

Exploring trade and investment possibilities overseas has been an element of states' overall economic development efforts for at least two decades. State overseas offices, on the frontline in the bid to attract foreign direct investment as well as to boost exports, are concentrated in Asia, with the largest number located in Japan. This reflects the importance of transpacific trade. Recently, however, political and economic developments at the local and the international level have compelled many states to review the role of their overseas offices.

Faced with a decline in new Japanese direct investment in this country since 1990, several state offices in Japan have shifted their efforts toward export promotion. Moreover, tighter budgets have forced some states to close their Japan offices and others to consider new options for promotion there. Changes in state operations in Japan and elsewhere are likely to continue as state leaders examine the effectiveness of their overseas representation and consider the states' role in trade expansion in light of a new federal government emphasis on export promotion. At the same time, as Washington and its allies work toward new multilateral trade agreements, states will be seeking a larger voice in the international rules that they see increasingly affecting their trade-related operations.

Overview

Over the last two decades international opportunities have loomed increasingly large in the economic development plans of governors, according to Wisconsin's Gov. Tommy Thompson, the former chairman of the National Governors' Association Committee on International Trade and Foreign Relations.[1] Gov. Thompson has written that state leaders have greater flexibility than federal officials to shape trade strategies that fit the requirements of both local companies and the

international market. Among state efforts to expand trade and investment, the Wisconsin governor noted, are programs to promote joint ventures, foreign investment and tourism as well as to provide export financing and such technical assistance as seminars, business counseling and trade leads. He emphasized that overseas missions headed by governors also have helped to expand exports and attract investment and tourism. In 1990 governors led 82 such trips.

State overseas offices are another element of trade and investment promotion efforts. The National Association of State Development Agencies placed the number of state overseas offices or representatives at 163 in 1990, the latest year for which complete data are available. In 1990 Japan had the largest concentration of state offices or representatives, with a total of 41. Slightly more than half were government-run facilities, the others were contract arrangements. State interest in pursuing opportunities in Asia was reflected further by the next two top locations for offices or representatives, Taiwan and South Korea, which numbered, respectively, 22 and 16 in 1990. Among the states that had no representation in Japan in 1990 several (Arizona, Idaho, Rhode Island and Wyoming) had Taiwan offices addressing their Asian interests. Those with representative offices across the Atlantic included 15 in Belgium, followed by 14 in West Germany. A handful of states — including Maine, Nebraska, New Hampshire, New Mexico, South Dakota and Vermont — had no overseas offices as of 1990.

While Japan still is host for the largest number of state overseas offices, state representation there has undergone some changes since 1990. Currently there are 36 state offices or representatives in Japan. Texas, Maryland and Louisiana have closed their Japan operations since 1990, while Connecticut and Pennsylvania have reduced their representation to part-time minimal status. In addition, the State of Utah has restricted its trade representation in Tokyo, although it maintains tourism promotion efforts there, according to officers of the Tokyo-based American State Offices Association, which since 1980 has helped its members coordinate their efforts in Japan. Utah state officials say they are awaiting the assignment of a new director and that the office will be reestablished soon. Maryland, which closed its Japan office in late March 1992 in response to significant cutbacks in the state budget, also hopes to reopen its Tokyo office. The State of Texas characterizes the shutdown of its Tokyo operations as a temporary move. Texas state officials say they hope to start up a new office by June, although they admit that budget reallocations make a scaled-back operation likely. Louisiana, whose exports to Mexico expanded 95 percent from 1987 to 1990, decided to shift scarce resources to meet business demands regarding export opportunities in Latin America. The state has no plans to reopen its Tokyo office, even though Japan was Lousiana's top export market in 1990, purchasing $2.6 billion of that state's total exports. Louisiana officials indicate that one factor in the decision to close the Tokyo office is the range of services available to exporters interested in that market from other sources, including those provided by the Japanese government.

With most states facing similar budget constraints, many are expected to reevaluate their Tokyo representation. While for some states this may mean adjusting the scope of their Japan operations to fit new fiscal conditions, ASOA officers predict other Tokyo offices will close in the future. For its part, the association participates in trade shows and seminars and works with industry associations, the American Chamber of Commerce in Japan, the quasi-governmental Japan External Trade Organization and other groups. Representing a unified front, ASOA officials point out, the states can increase their political leverage and heighten their exposure in Japan.

Changes Within the States

The first challenge for most of the 19 new governors elected in 1990 was dealing with their states' economic difficulties, including declining revenues and the competing demands for what money

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

was available. Trends in the economy have a direct impact on state budgets, which, with the exception of Vermont's, must be balanced each year. Most state offices in Japan have felt the repercussions of budget restrictions resulting from the recession that took hold in late 1990. Jody Thomas, director of the NGA's Committee on International Trade and Foreign Relations, points to the closer scrutiny of state overseas operations by local government over the past 18 months. State leaders have been looking at revising the role of such operations, making staffing changes and defining criteria for evaluating the performance of overseas offices, Ms. Thomas notes.[2]

In addition, the 1990 elections brought 13 states under the administration of a different party, resulting in a reassessment of priorities in many statehouses. A number of state representatives in Tokyo report that these shifts in state leadership have precipitated recent changes in their offices' activities. Jack Savas, managing director of Michigan's Japan Operations, says that the principal focus of the Tokyo office in the late 1980s was to attract foreign direct investment to the state, with the hope of creating jobs for dislocated automotive workers. Preliminary estimates indicate that at the end of 1989 direct investment in Michigan by Japanese-controlled affiliates totaled $2.5 billion and accounted for 19,500 jobs in the state (see Tables 1 and 2). When Republican John Engler took over from Democratic two-term incumbent Gov. James Blanchard following the 1990 election, Mr. Savas notes, his administration gave new priority to introducing Michigan producers to Japanese buyers.[3] Michigan's overall exports to Japan totaled $773 million in 1990. Even when the governorship stayed in the same party, the same approach was not assured. Michael Hayes, formerly the chief representative of the Commonwealth of Kentucky's Far East Representative Office in Tokyo, says that a policy review initiated by Democratic Gov. Brereton Jones, inaugurated last December after the expiration of the term of fellow Democrat Gov. Martha Layne Collins, has highlighted the importance of trade promotion rather than investment attraction efforts.[4]

Adjusting to Declining Japanese Investment in the United States

The slowdown in Japanese direct investment in the United States also has compelled states to reassess their operations in Japan. The boom in Japanese spending to establish, purchase or expand production facilities in the United States ended in 1989 (see *JEI Report* No. 46A, December 13, 1991). By then many major Japanese exporters already had U.S. production facilities in operation and had shifted their attention to other areas of the world, particularly Europe. More recently, the state of the Japanese economy has dampened the immediate prospects for an upturn in Japanese direct investment in this country.

Kentucky's experience is illustrative of the benefits from the Japanese investment boom — and the response to its ebb. That state's former Far East representative, Mr. Hayes, notes that a rush of automotive-related manufacturing investment followed Toyota Motor Corp.'s decision to build a production complex in Georgetown. Kentucky currently has 72 Japanese manufacturing plants; there were nine in 1985. Although the boom continued through January 1990, once automotive parts suppliers were in place and the economy had slowed, Kentucky saw a dramatic drop in investor interest, Mr. Hayes says. After recognizing this development, Kentucky turned its attention to export promotion. The shift has been very recent; the Tokyo office devoted 90 percent of its attention to investment attraction until last year. Now export promotion and investment attraction have about equal emphasis in that office. Mr. Hayes considers three new in-state Japanese plants a year a successful rate these days, in contrast to the 19 production facilities announced in 1989.

Investment attraction still has a place on most states' Tokyo office agendas, and a number of representatives continue to concentrate on this task. Some observers see the shift toward export promotion as a matter of expanding the state office role to include these functions rather than cutting out investment attraction responsibilities. Yet a number of state representatives describe their investment attraction role as more passive than it was previously. They note that the time they devote to investment attraction has decreased not only because economic developments have narrowed the number of projects but because potential investors are more informed about the business environment

Table 1: **Gross Property, Plant and Equipment of Nonbank Affiliates of Foreign Companies, State by Country of Ultimate Beneficial Owner, 1987-89**

(in millions of dollars)

	1987		1988		1989*	
	Japan	Total	Japan	Total	Japan	Total
New England						
Connecticut	$67	$3,092	$177	$3,810	$201	$4,718
Maine	3	1,549	22	2,035	33	2,110
Massachusetts	387	5,214	588	6,516	757	7,580
New Hampshire	88	736	102	994	123	1,141
Rhode Island	18	605	26	580	(D)	931
Vermont	6	382	16	449	17	502
Mideast						
Delaware	37	3,432	60	4,789	75	5,378
District of Columbia	186	1,655	419	2,230	655	2,433
Maryland	134	3,124	188	3,766	462	4,812
New Jersey	768	11,458	1,235	13,980	1,488	16,011
New York	5,170	23,069	6,508	26,366	8,518	31,993
Pennsylvania	271	10,898	585	11,582	748	14,984
Great Lakes						
Illinois	2,426	12,920	3,514	16,699	4,512	19,610
Indiana	594	4,183	1,338	5,928	1,891	8,106
Michigan	1,790	7,640	2,134	8,774	2,494	10,220
Ohio	1,536	10,622	2,320	12,912	4,273	17,315
Wisconsin	110	2,803	107	3,674	142	4,349
Plains						
Iowa	74	1,663	382	2,219	422	2,356
Kansas	33	2,350	113	5,254	141	4,717
Minnesota	(D)	4,344	426	5,540	757	11,410
Missouri	81	4,233	128	4,484	181	5,024
Nebraska	24	459	37	556	54	700
North Dakota	5	1,295	2	1,169	8	1,121
South Dakota	7	378	(D)	441	(D)	456
Southeast						
Alabama	368	4,011	521	4,852	637	5,855
Arkansas	130	1,289	410	1,707	501	2,263
Florida	233	9,574	335	11,905	401	14,316
Georgia	713	9,059	1,013	10,856	1,555	13,873
Kentucky	703	4,557	1,408	5,581	2,019	6,750
Louisiana	84	14,292	205	15,898	223	15,661
Mississippi	41	2,425	(D)	2,579	78	2,606
North Carolina	404	9,727	823	11,792	1,451	13,869
South Carolina	165	6,182	558	7,289	628	8,572
Tennessee	1,134	5,604	1,531	7,292	1,852	8,771
Virginia	112	6,808	232	7,982	484	9,137
West Virginia	(D)	5,060	214	5,020	225	5,511
Southwest						
Arizona	104	4,103	434	5,060	489	5,859
New Mexico	16	2,751	27	3,569	(D)	3,881
Oklahoma	76	5,088	383	5,709	408	5,726
Texas	841	41,591	1,296	46,213	1,755	48,176
Rocky Mountains						
Colorado	103	4,487	187	5,469	286	5,716
Idaho	1	395	45	432	53	618
Montana	5	1,684	7	1,801	9	1,917
Utah	6	2,610	10	3,502	16	3,391
Wyoming	1	2,962	1	2,990	4	1,958
Far West						
California	8,464	44,275	11,702	52,411	14,627	61,142
Nevada	(D)	1,606	266	2,653	334	3,747
Oregon	391	1,812	493	2,099	667	2,299
Washington	796	3,588	1,118	4,803	1,398	5,914
Alaska	352	18,420	379	18,312	501	18,919
Hawaii	2,969	3,474	4,235	4,990	5,975	6,888
Puerto Rico	61	558	83	663	78	997
Other U.S. Areas	118	15,019	137	17,247	153	17,579
Total	32,924	351,113	48,547	415,423	65,593	479,889

*Preliminary.

Note: (D) indicates data have been suppressed to avoid disclosure of data on individual companies.

Source: Department of Commerce

Table 2: **Employment of Nonbank Affiliates of Foreign Companies, State by Country of Ultimate Beneficial Owner, 1987-89**

(in thousands of employees)

	1987		1988		1989*	
	Japan	Total	Japan	Total	Japan	Total
New England	2.4	57.0	3.9	72.3	4.4	87.7
Connecticut	0.1	20.6	0.5	24.4	0.4	27.1
Maine	8.1	92.5	11.1	110.3	13.6	129.0
Massachusetts	1.8	18.9	2.5	22.4	2.6	25.6
New Hampshire	0.4	10.5	0.5	12.2	0.5	13.3
Rhode Island	(D)	6.0	0.4	7.9	0.4	8.4
Vermont						
Mideast	0.4	36.8	1.1	41.8	1.1	41.5
Delaware	0.3	7.0	0.9	8.8	1.0	8.8
District of Columbia	2.7	53.8	3.0	62.1	3.4	68.6
Maryland	16.2	173.3	21.2	203.9	24.2	222.4
New Jersey	36.8	302.8	40.4	342.8	42.8	370.9
New York	5.0	166.9	8.6	179.0	10.1	201.4
Pennsylvania						
Great Lakes	21.6	168.2	33.7	214.1	37.5	238.6
Illinois	3.9	67.4	8.2	83.4	9.4	96.5
Indiana	13.7	96.3	17.6	116.2	19.5	140.1
Michigan	12.4	132.9	20.9	170.2	34.5	207.6
Ohio	2.0	54.9	2.8	71.1	3.0	77.0
Wisconsin						
Plains	0.6	20.4	2.8	28.6	3.0	30.6
Iowa	0.6	19.9	1.3	27.8	1.4	30.0
Kansas	2.3	40.2	3.0	51.4	3.2	81.2
Minnesota	1.7	50.2	2.9	59.0	3.6	71.6
Missouri	0.3	7.6	0.8	12.7	0.9	13.5
Nebraska	**	2.7	0.1	2.7	0.1	3.1
North Dakota	0.1	1.9	0.1	2.9	0.1	3.0
South Dakota						
Southeast	4.1	35.4	5.8	42.0	6.5	55.8
Alabama	1.6	21.3	3.9	25.7	5.2	32.0
Arkansas	9.4	124.0	13.9	154.1	8.9	186.5
Florida	10.7	122.4	14.6	143.7	17.2	159.7
Georgia	3.1	38.5	6.1	47.7	13.1	55.5
Kentucky	0.4	51.3	1.7	56.2	1.7	64.6
Louisiana	1.3	17.5	1.7	20.2	1.8	22.8
Mississippi	4.0	134.1	7.2	157.4	9.6	174.5
North Carolina	2.9	75.7	6.7	85.1	6.9	100.1
South Carolina	8.0	82.2	11.9	98.2	12.8	112.3
Tennessee	2.0	79.7	3.6	92.7	4.9	106.1
Virginia	0.2	25.4	0.9	26.6	1.0	29.8
West Virginia						
Southwest	1.8	43.5	4.3	48.0	4.3	54.2
Arizona	**	14.1	0.3	15.1	1.5	15.6
New Mexico	0.7	27.2	2.7	38.4	3.0	41.2
Oklahoma	8.6	210.1	14.6	236.4	18.2	263.8
Texas						
Rocky Mountains	1.3	28.3	2.1	34.2	3.1	40.0
Colorado	0.1	4.0	(D)	5.6	(D)	8.2
Idaho	0.1	3.7	0.1	3.8	0.3	4.1
Montana	0.2	12.6	0.4	15.4	0.5	16.1
Utah	**	4.3	0.1	3.9	0.1	4.1
Wyoming						
Far West	71.3	334.9	86.6	407.1	102.6	496.4
California	(D)	10.5	(D)	13.7	(D)	18.7
Nevada	3.2	21.0	4.2	25.1	6.9	28.5
Oregon	5.8	40.6	9.7	55.8	10.0	67.2
Washington						
Alaska	1.8	7.5	2.5	7.6	2.4	8.0
Hawaii	20.6	27.3	24.3	34.8	29.6	42.7
Puerto Rico	2.5	12.8	2.9	14.7	2.7	19.6
Other U.S. Areas	1.6	4.0	1.8	4.6	1.9	8.8
Total	303.1	3,222.7	426.7	3,841.6	502.1	4,434.4

*Preliminary.
**Fewer than 50 employees.

Note: (D) indicates data have been suppressed to avoid disclosure of data on individual companies.

Source: Department of Commerce

in the United States and state offices are more familiar with the process. John Hemmer, representative and managing director of Japan Operations for the State of Illinois, notes that because his office has been doing investment promotion for a long time, "The type of information needed for an investment project we can handle quite easily, speedily and efficiently," compared to when the program was started.[5] A number of state representatives suggest that the responsibility for attracting investment also has been lightened by the active role some state and city chambers of commerce have taken in pursuing foreign direct investment.

Some states also have revised their approach to investment attraction in response to public concerns. Several years ago many state governments came under fire for using tax incentives and other enticements to draw foreign investment. Recently some statehouses have downplayed incentive packages while boosting efforts to increase public awareness of the benefits of foreign direct investment. At the same time Japanese companies in this country have become more attuned to the corporate citizenship responsibilities expected of them (see *JEI Report* No. 18A, May 4, 1990).

New Challenges for State Overseas Offices

The shift toward export promotion parallels an increased awareness of trade as a critical issue in U.S.-Japan relations as well as the federal government's expanding emphasis on boosting U.S. exports, according to state representatives in Tokyo. The most compelling reason for states in many regions to pursue export opportunities, however, rests in market realities.

Options for State Representation - While some states may see a need to downsize their Tokyo operations from full-scale offices to contract arrangements or part-time consultants, others are looking into different ways to ease their budget constraints. One idea instituted by Michigan's Japan Operations office and under discussion in other states is to operate under a fee schedule. Some states currently request contributions from the business community to cover certain costs. Others have cut expenses by sharing office space with state private-sector organizations.

A number of states also are considering joining forces in regional offices. South Carolina's Jack Yamashita, who notes that his state is active in U.S.-based regional associations aimed at improving ties with Japan, says one benefit of a regional effort is that competition among states begins among regions. But after that, he cautions, each state has to have "someone that is willing to fight for [his or her] own state." Among the problems raised over the use of regional offices are whether states' diverse fiscal years and the lack of confidentiality would hurt the offices' chances of success. Offering a more positive perspective is a 1989 study conducted for the Western Governors' Association; it observed that overseas trade officers typically serve exporters rather than states. The study concluded that consolidating efforts for export promotion "is more feasible than collaboration on investment promotion which is more directly competitive."[6]

Measuring the Effectiveness of State Overseas Offices - As states face tighter budget constraints they increasingly are pressed to rationalize expenditures on such initiatives as international business promotion, often unpopular among local politicians. Michigan's Mr. Savas notes that many states calculate the effectiveness of their overseas operations based on what the office has produced. The shift to export promotion has complicated this approach because exports are more difficult to measure and take longer to realize than direct investment, he adds.

One state that recently completed a strategic review of its international business promotion programs is California. According to state officials, Republican Gov. Pete Wilson would like to point to the actual business impact of such programs, including overseas offices, and his administration is experimenting with tools to assess this impact.

Representatives of California's World Trade Commission note that the state's Tokyo office handles 165 trade and 45 investment inquiries a month on average. Getting a handle on the value of

export promotion is difficult, however, due to the concurrent efforts of other state agencies and of local chambers of commerce. Soon after Gov. Wilson was inaugurated in 1991 the state initiated a systematic effort to follow up California companies' trade inquiries. Feedback, including the value of sales achieved and key services provided by various state organizations, is being logged into a data base, which will help the state chart trends.

In addition to individual state efforts, the National Association of State Development Agencies currently is considering performance measures for overseas operations, including export dollars generated and number of contracts won. The association also is studying possible means of providing national comparability of such measures. Ms. Thomas of the National Governors' Association notes that her organization is working closely with NASDA and hopes that the latter's guidelines, anticipated by this summer, will provide a way to review state programs across-the-board. NASDA's efforts are in line with NGA's ongoing attempt to assess the current status of trade promotion programs in light of international developments and federal changes, Ms. Thomas adds.

An evaluation of Illinois' overseas offices by Blaine Liner of the Urban Institute underscores the difficulty of determining which measures most effectively assess operations.[7] Mr. Liner's study found contrasting outcomes from the business development efforts of Illinois' offices in Europe and in the Pacific Rim, a divergence he attributes to cultural differences and variations in the time it takes to develop contacts. Based on these findings he cautions against using the same test of effectiveness for overseas offices in different regions of the world.

Other Constraints on State Overseas Offices - Concurrent with state capitals' pressure on their overseas offices to accomplish more with fewer resources is a different set of constraints that some state representatives in Tokyo feel are not fully understood back home. Mr. Hayes, Kentucky's former chief representative in Tokyo, previously was posted in that state's Office of International Marketing for two years; he notes that officials in capitals like Frankfort tend to set policies and goals that are not realistic for what is going on in Japan. These difficulties include a lack of information in the state about Japan's economy, market conditions and political climate as well as such operational problems as different response times in the two capitals. Mr. Hayes says discussions with other state offices in Tokyo reveal that they all face similar problems.

Some state representatives in Tokyo have indicated that their state could benefit from a smoother relationship between the state overseas office and congressional representatives. In interviews several commented that lawmakers have failed to contact the state office when they visited Tokyo; some indicated that they would welcome the opportunity to fill legislators in on their state's Japan operations. A number also pointed out that, although their efforts are fairly well insulated from bilateral trade tensions, at times they are put in the position of explaining apparent contradictions between lawmakers' responses and the objectives of business people in the particular state that both legislators and state offices seek to represent. Several state office representatives noted that Japanese business leaders recognize that many Americans do not share the opinions voiced by lawmakers in an election year. However, a number of potential Japanese projects have been canceled or postponed due to concerns about the U.S. economy or about protectionist reactions, Michigan and Kentucky representatives reported.

Trade Promotion Efforts

Some state representatives emphasize that international trade is not a new priority for their state; a number have had in-state export promotion programs as well as overseas offices for a couple of decades. (For an earlier look at state export promotion efforts to Japan, see *JEI Report* No. 35A, September 15, 1989.) Recently, however, many states have reallocated their Japan office resources to export promotion. The State of Oklahoma's Japan office, for example, recently reversed its emphasis from investment attraction to export promotion. In 1990 it shifted to a rough split between the two tasks, and in 1991 made export promotion its primary focus.

Mr. Hemmer, the representative in Japan for Illinois, which opened its Tokyo office in 1987 primarily to concentrate on trade, sees his state as "just a little bit faster in opening up the trade aspect," but "now other states are beginning to rechannel their efforts" toward export promotion. In 1990 Japan was Illinois' largest export market after Canada; Department of Commerce estimates for that year show that the state exported $1.4 billion worth of manufactured goods to Japan. Adding Illinois' agricultural shipments greatly augments that figure, state officials say. Mr. Hemmer points to the office's success in helping Illinois companies participate in trade shows and pinpoint niche markets in Japan for their products and services; he estimates that between FY 1988 and FY 1991 Illinois companies earned $1.5 million in floor sales and $27 million in first-year sales as a result of their participation in trade shows in Japan.

In addition to identifying export opportunities and alerting business people to upcoming trade shows, the Illinois Tokyo office provides local firms with background information about Japanese companies and markets, as well as translation and other services. Mr. Hemmer emphasizes that his office is in Japan to help address problems Illinois businesses might encounter. He stresses that it is critical for companies to come to Japan to explore markets there. Mr. Yamashita, director of South Carolina's Far East Office, concurs that American firms could break into Japanese markets more successfully by visiting Japan to conduct research and to learn how to tailor their products to consumer needs there.[8] Although South Carolina's Tokyo office, which opened in 1983, is not heavily involved in export promotion, Mr. Yamashita points to one South Carolina firm that, with Japanese government assistance, adjusted its operations to better suit its products to the Japanese market. South Carolina's Ducane Co., which produces furnaces and gas grills, adopted a number of Japanese manufacturing techniques to improve quality and cost control.

In 1991 South Carolina exported $272.8 million worth of goods to Japan, its second-largest trading partner, according to Department of Commerce estimates. The top three exports combined — paper and related products, rubber and allied products, and chemicals — represented more than half of South Carolina's exports to Japan last year. The type of merchandise exported by a particular state factors into that state's trade promotion activities. Trade associations, which often have their own offices overseas, typically take the lead on overseas promotion of agricultural and industrial inputs, while state export expansion efforts generally focus on value-added manufactured goods.

Certain states also recognize the limits of their export capabilities. Instead of targeting product shipments, for example, the former head of Maryland's office in Tokyo hopes to interest Japanese pharmaceutical companies in joining forces with Maryland's numerous biotechnology firms and medical institutions.

U.S. Government's Role

Several federal as well as state programs are available to small and medium-sized companies interested in exporting to Japan. In 1990 the Department of Commerce established the Japan Export Promotion Program, geared specifically toward helping exporters access Japan's markets. A central part of that program, the Japan Export Information Center, provides business counseling and a wide range of information related to doing business with Japan.

Federal Support for U.S. Exporters - The Department of Commerce's International Trade Administration heads up the federal government's overall export promotion efforts. It has 47 district offices and 20 branch offices throughout the United States to assist American firms. These offices offer support in such areas as: export counseling, targeting overseas partners and markets, and finding financial aid. In addition, ITA's U.S. and Foreign Commercial Service has overseas posts in 68 countries to provide American firms with assistance in background information, market research, counseling and similar services. Many USFCS district offices work closely with state economic development agencies. The overseas posts also interact with the state overseas offices, although this contact generally is not as coordinated as the district offices' relationships with agencies in the states.

In mid-1990 the Bush administration announced a new initiative aimed at encouraging American businesses to expand their exports. Under the Commercial Opportunities Initiative the White House called for a Trade Promotion Coordinating Committee to increase the effectiveness of federal programs serving U.S. exporters (see *JEI Report* No. 22B, June 8, 1990). That year the USFCS conducted a strategic review of federal and state export promotion policies. As a result of its review, the USFCS launched a new effort last November to reinforce Washington's ties to state economic development agencies as well as to trade associations and various state world trade centers. The mission of the new Office of Public and Private Programs involves examining aspects of the federal-state partnership in trade assistance and seeking to coordinate initiatives in this area. The USFCS also drew up a priority list of private-sector needs the Commerce Department is in the best position to meet. These steps to focus federal government programs mirror some state actions to streamline international business development efforts, but they also have resulted in the transfer of certain responsibilities to the states.

Other Efforts to Aid Exporters - Federal export financing efforts include those of the Export-Import Bank of the United States. The bank has several loan, loan guarantee and insurance programs aimed at facilitating American exports, but it primarily finances sales of U.S. goods to developing countries. Other assistance in the form of export counseling and financial help is available to small business exporters from the Small Business Administration. Also geared to small exporters are state financing programs. Seven states have export finance programs; others will assist firms in seeking federal financing.

Japanese Government Initiatives

The Japanese government also has supported certain initiatives aimed at boosting U.S. imports into Japan. Low-interest financing for Japanese importers and foreign exporters is available from the Export-Import Bank of Japan. Although the bank has had a lending program in place since 1990 for foreign exporters or manufacturers seeking to boost their sales in Japan, the first such agreement was signed this March (see *JEI Report* No. 16B, April 24, 1992). Since 1984 the Japan Development Bank, which helps finance industrial development and infrastructure in Japan, has offered loans specifically for foreign-affiliated manufacturing operations in Japan and for foreign companies interested in investing in facilities — such as inspection, distribution or display sites — to expand exports to Japan. For example, this past December JDB made a ¥550 million ($4.1 million at ¥135=$1.00) loan commitment to General Motors Japan, Ltd. to cover one-third of the cost of construction of its Asian Technical Center in Tokyo. The recently opened center will be used to test, inspect and tailor automotive components to Japanese makers' standards and specifications. In addition, the Ministry of International Trade and Industry is backing a bill that over the next few years would establish 10 foreign access zones, or bonded warehouse facilities, near airports and harbors to improve Japan's import infrastructure and streamline customs procedures.

In 1990 JETRO launched an import expansion effort encompassing four key measures: sending private-sector merchandising and distribution experts abroad in search of potential imports; distributing program information in Japan and overseas; exchanging trade missions; and inviting foreign business representatives to Japan. JETRO officials estimate that the organization's programs facilitated roughly $100 million in additional American exports to Japan in 1991.

JETRO's plan to send 25 "export promotion advisers" overseas was launched in August 1990; 15 of these experts were chosen for roughly two-year assignments in the United States to conduct research, target promising exports and provide support for U.S. firms interested in exporting to Japan. JETRO's plans also included the dispatch to Europe and North America of 50 merchandise experts on one- to two-month import-finding missions. In addition, JETRO has signed trade promotion agreements directly with several states, including Indiana and Ohio.

While some states cite success with certain Japanese government import promotion programs, others are less enthusiastic. Several state representatives in Tokyo report that the loan programs run

by Japan's Ex-Im Bank and JDB are not suited to the small or midsized companies their offices are trying to assist. Some also express skepticism about the proposed foreign access zones. Eugene Tsuji, director of the State of Mississippi's Japan Office, notes that the zones are an excellent idea but questions whether the rural locations under consideration would be practical for companies that need easy access to Tokyo.[9] Some states also criticize JETRO for being out of touch with the realities and the priorities of state government operations. Yet others cite success with JETRO's long-term trade specialist program, noting that JETRO experts have helped plug local companies into its other programs. South Carolina's Mr. Yamashita says JETRO is "doing a bang-up job" devising plans and ideas for American businesses.

Outlook

State involvement in international business promotion is a natural response to the increasingly global economy. At the same time that state leaders are reviewing their trade promotion programs they are assessing cooperative possibilities with the federal government not only in promotion but in the policy arena as well. This past February the National Governors' Association adopted a policy statement calling on Congress and the executive branch "to work with states to establish clear principles for state participation within constitutional confines in the adjudication of international trade disputes that call into question state laws and practices" and to "work toward establishing and funding a formal mechanism for including states on a routine and ongoing basis in trade policy matters."[10]

The federal government has jurisdiction over most policy decisions regarding foreign relations, including negotiating and implementing trade rules. In the course of negotiating international trade agreements Washington is obligated to confer with state and city leaders through the Intergovernmental Policy Advisory Committee. NGA's Ms. Thomas emphasizes that although this advisory role has been positive, it is no longer adequate. State leaders are concerned about the impact of existing and anticipated multilateral trade agreements on state statutes, procedures and administrative responsibilities. State laws already have been targeted in trade disputes, the NGA representative notes. This spring a General Agreement on Tariffs and Trade panel upheld a Canadian complaint alleging discriminatory practices in 40 states that impact foreign beer and wine sales.

NGA officials point out that citations of state law in trade disputes "are likely to continue as traditionally domestic policy areas, such as services regulations, government procurement, and subsidies, come under international rules." Among the policies state leaders fear may be jeopardized by new trade rules are environmental standards that are stricter than federal requirements and economic development programs that favor in-state companies, the NGA's Ms. Thomas says.

Overseas offices, affected by developments in state capitals as well as in the international arena, are certain to see more changes. In Tokyo state offices are expected to continue their recent concentration on export promotion, at least in the short term. As state leaders reassess their international development strategies, efforts to reallocate scarce resources to fit new economic realities are likely to be reflected in the role of state offices in Japan and elsewhere.

For further information, contact **Margo Grimm**.

Notes

[1]Gov. Tommy Thompson, "A Governor's Perspective on Trade," *Business America*, May 6, 1991, p. 13.

[2]Telephone interview with Jody Thomas, director, National Governors' Association Committee on International Trade and Foreign Relations, Washington, D.C., March 24, 1992.

[3]Interview with Jack Savas, managing director, Japan Operations, State of Michigan, Tokyo, Japan, March 11, 1992.

[4]Interview with Michael Hayes, former chief representative, Far East Representative Office, Commonwealth of Kentucky, Tokyo, Japan, March 19, 1992.

[5]Interview with John Hemmer, representative and managing director, Japan Operations, State of Illinois, Tokyo, Japan, March 17, 1992.

[6]Jerry Levine, *Going Global: A Strategy for Regional Cooperation* (Western Governors' Association, July 1989), p. 94.

[7]Telephone interview with Blaine Liner, The Urban Institute, Washington, D.C., May 6, 1992.

[8]Interview with Jack Yamashita, director, Far East Office, State of South Carolina, Tokyo, Japan, March 16, 1992.

[9]Interview with Eugene Tsuji, director, Japan Office, State of Mississippi, Tokyo, Japan, March 12, 1992.

[10]"Government Meeting Calls for Greater State Role in Implementing Trade Policy," *Inside U.S. Trade*, February 7, 1992, p. 17.

* * * * * *

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.